Nabil Bank Limited

Ratings

Facility/Instrument*	Amount (Rs. in Million)	Ratings[1]	Rating Action
Issuer Rating	**NA**	**CARE-NP A (Is) [A (Issuer)]**	**Assigned**

CARE Ratings Nepal Limited (CRNL) has assigned the rating of 'CARE-NP A (Is)' to Nabil Bank Limited (NABIL). Issuers with this rating are considered to offer adequate degree of safety regarding timely servicing of financial obligations, in Nepal. Such issuers carry low credit risk.

Detailed Rationale & Key Rating Drivers

The rating assigned to NABIL derives strength from its long track record of operations along with experienced management team supported by diversified geographical coverage. The ratings also take note of NABIL's adequate capitalization levels Core Equity Tier-I (CET-I) ratio as on mid-April 2025 with decent buffer over the regulatory requirement. While the cushion on overall CAR stood low as on mid-April 2025, proposed issuances including perpetual non-cumulative preference shares and subordinated debentures coupled with healthy internal capital generation is likely to support its credit growth trajectory while providing decent cushion to its capitalization levels going forward. The rating factors in satisfactory financial performance of the bank in FY24 (Audited, FY refers to the twelve-month period ending mid-July) and 9MFY25 (Unaudited, refers to the nine-month period ended mid-April 2025) marked by strong profitability levels vis-à-vis peers, sustained growth in deposit base and advances, comfortable liquidity profile and healthy low-cost deposit ratio leading to relatively lower cost of funds.

The rating, however, is constrained by weekend asset profile with relatively high Gross Non-Performing Loans (GNPL) ratio and overall delinquencies as on mid-April 2025. Sustained high GNPL levels owing to more slippages in asset quality over the near term remains a key concern for the Nepalese banking sector. Hence, amid near-term headwinds, further stress on NABIL's asset quality could lead to added pressure on the bank's earnings and distributable profits, which remains a key constraint from credit perspective. The rating also factors in intense competition, and exposure to regulatory risk related to industry.

The bank's ability to improve its asset quality will be critical for the bank's earning profile and profitability and will be a key rating sensitivity. Maintaining adequate cushion towards the capital adequacy requirements, and ability of the bank to manage the impact of any regulatory changes by Nepal Rastra Bank (NRB) will also remain key rating sensitivities.

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Long track record of operations and experienced management team supported by diversified geographical coverage

Established in 1984, NABIL has operational track record of over four decades as the first private sector bank of Nepal. NABIL has a well-diversified geographical reach in Nepal through its 268 branches, 21 extension counters, 321 ATMs terminals and 12 branchless banking as on mid-April 2025 covering 62 districts. Following the acquisition of United Finance Limited and Nepal Bangladesh Bank Limited in FY21 and FY22, respectively, NABIL's scale of operations stood at higher

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[1] *Complete definition of the ratings assigned are available at https://www.careratingsnepal.com/ and other CARE publications*

side with ~8% market share in terms of deposit base and advances portfolio as on mid-April 2025 - second highest among 20 commercial banks in Nepal. The bank is promoted majorly by institutional promoters including N.B (International) Limited (Ireland), IFIC Bank Plc (Bangladesh), Rastriya Beema Company Limited etc.

NABIL has seven members in its board, chaired by Mr. Upendra Prasad Poudyal who has 38 years of experience in banking sector, particularly in project finance and international banking. The management team is led by Chief Executive Officer (CEO), Mr. Manoj Kumar Gyawali with more than two decades of experience in banking and hydropower sector. Prior to joining NABIL, Mr. Gyawali worked as the Chief Executive Officer at Jyoti Bikas Bank Limited. He is supported by an experienced management team.

Adequate capitalization level; likely to be boosted post completion of planned issuances

The bank has consistently maintained adequate levels of capitalization to meet the minimum regulatory requirements and support its credit growth. It has demonstrated steady credit expansion while continuing to distribute cash dividends over the years. Despite these outflows, the bank sustained a healthy Common Equity Tier –I (CET I) ratio and overall Capital Adequacy Ratio (CAR), remaining above 10% and 12%, respectively, well above the regulatory thresholds of 7% and 11%, up to the end of FY23. This was supported by strong internal capital generation, as reflected in its relatively higher Return on Total Assets (ROTA) compared to peers.

However, CET I ratio has moderated during recent times and declined to 9.47% as of mid-July 2024, down from 10.22% as of mid-July 2023. This decline was primarily due to a reduction in core capital following the tax payment of Rs. 1,617 Mn related to a bargain purchase gain from a merger/acquisition and cash dividend payout of 11% amounting to Rs. 2,976 Mn. These factors, combined with credit growth of ~14% year-on-year contributed to the moderation at FY24 end. The bank sustained its credit growth momentum in 9MFY25, with an ~8% increase over the FY24 level. Despite reporting relatively healthy profitability during this period, another 10% cash dividend payout totalling Rs. 2,706 Mn further impacted its CET I ratio, which declined to 9.12% as of mid-April 2025. Nevertheless, the bank-maintained buffer of 2.12% above the regulatory CET I requirement as of that date. Overall CAR stood at 12.24% as of mid-July 2024 and 11.72% as of mid-April 2025, compared to the regulatory requirement of 11%. The bank is in process of issuing perpetual non-cumulative preference shares amounting to Rs. 5 Bn and subordinated debentures to the tune of Rs. 3 Bn, which is expected to strengthen its capitalization levels post completion. This, along with accretion in retained earnings, is expected to support the bank's projected credit growth while maintaining a decent cushion in its overall CAR. The bank's ability to maintain an adequate buffer in its capital adequacy ratios will remain critical to ensuring its solvency and supporting its future growth prospects.

Strong profitability levels vis-à-vis peers

Over FY21-FY24, NABIL's total income grew at a robust CAGR of ~34%, driven by strategic acquisitions in FY21 and FY22 and consistent growth in loans and advances. Net profit also rose at a three-year CAGR of ~11% over the same period. During FY24, total income increased marginally by ~1% to Rs. 51,188 Mn, mainly supported by a ~14% y-o-y growth in advances portfolio, despite a decline in yield on advances. The bank invested excess liquidity arising from higher deposit growth relative to credit expansion into lower-yielding instruments such as Treasury bills, government bonds, and NRB deposits. As a result, Net Interest Margin (NIM) declined to 3.14% in FY24 from 3.94% in FY23. Nevertheless, profitability remained resilient, with reported net profit of Rs. 6,197 Mn and Return on Total Assets (ROTA) of 1.19%, better than other industry average.

During 9MFY25, despite further moderation in NIM, profitability was supported by controlled operational cost and reduction in impairment charges. Net profit increased by ~8% y-o-y reaching Rs. 5,051 Mn in 9MFY25. Despite a slight moderation in Return on Total Assets (ROTA) to 1.15%, NABIL's profitability continues to be better than the industry average.

Sustained growth in deposit base and advances

Over the past four years (FY20-FY24), NABIL has achieved a sustained growth better than industry average, in the loans & advances and deposits supported by an increasing reach through acquisitions, expansion of branches and improved offerings. Total loans and advances grew at three-year CAGR of 23.74% (industry average: ~7%, was on relatively lower side on account of subdued credit growth during FY23 and FY24). Y-o-y credit growth stood at ~14% at the end of FY24, significantly outpacing the industry average of 5.91%. The growth in the bank's loans & advances portfolio during the period is also accompanied by a similar growth in its deposits, which grew at a three-year CAGR of 27.16% (industry average: ~11%). Total deposits of NABIL grew by around 16% y-o-y in FY24. Further, the advances portfolio and deposit base increased by ~8% and ~9% respectively at the end of 9MFY25 over FY24 level.

Comfortable liquidity profile

NABIL maintained comfortable liquidity profile with SLR of 25.01% (regulatory requirement:12%) and average CRR of 4.31% (regulatory requirement: 4%) and net liquidity of 27.70% (regulatory requirement: 22%) as on July 15, 2024. The bank continues to maintain SLR, CRR and net liquidity well above the regulatory requirement as on April 13, 2025.

Healthy low-cost deposit ratio and relatively lower cost of funds

The low-cost deposits of the bank stood at 53.55% at the end of 9MFY25 better than industry average of 49.91%. A higher proportion of low-cost deposits results in a relatively lower cost of funds for the bank, which is an advantage in the "base rate plus" lending model in Nepal. It could impact its pricing power and profitability amid intense competition in the industry. The bank reported one of the lowest base rates, which ranked 5th lowest base rates as on mid-April 2025.

Key Rating Weaknesses

Weakened asset profile

NABIL has historically maintained a better asset quality than the industry average. The bank's asset quality deteriorated from FY22 onwards as GNPL levels of the Nepalese banking industry observed sharp uptick (~sequential rise to 5.05% at the end of 9MFY25 from 1.2% at FY22 end for commercial banks). The sustained slippages over this period can be attributed to substantial growth in unseasoned credit over FY19-FY22, stringent policies adopted by the regulator during FY23 following lifting of covid related relaxations, introduction of tightened working capital guidelines, leveraged borrower profile and slowdown in the country's economy ultimately impacting the repayment ability of borrowers. As on mid-April 2025, NABIL's GNPL ratio had increased to 4.96% (industry average of 5.05%) from 4.45% as on mid-July 2024 (industry average of 3.76%). Additionally, 30+days delinquencies increased to ~15% at the end of 9MFY25 as compared to ~12% at the end of FY24. However, the banks' solvency indicator marked by net NPL to net worth stood relatively steady, albeit elevated compared to historical levels, at 9.11% and 10.99%, respectively at the end of FY24 and 9MFY25 respectively.

Intense competition and exposure to regulatory risk related to industry

Currently there are 20 Commercial Banks (as on mid-April 2025), including three major state-owned banks, operating with total 5,083 branches all over Nepal (based on monthly statistics published by NRB for mid-April 2025). NABIL had 268 branches along with head office as on same date. Industry (Class A Commercial Banks) had achieved net interest income of Rs. 139 Bn during 9MFY25, where NABIL's share on net interest income was 8.69%. Intense competition in the banking industry results in a highly dynamic market with volatile market shares. Unhealthy competition in the interest rates remains a prominent challenge. New technology-based services and its growing demand among customers adds on to the challenges for the Nepalese banking sector.

The banking industry of Nepal is exposed to changes in various regulatory measures issued by NRB from time to time. During last couple of years, NRB had changed to CD ratio mechanism from previous Credit to Core Capital plus Deposit (CCD) ratio measures, increased the minimum requirement of liquid assets that the BFIs must hold and implemented working capital guidelines. Cumulatively these led to muted credit growth in FY23 and FY24. NRB capped interest rate spread of commercial banks at 4% from 4.4%, which has also added to the lower profitability of banks in FY23, FY24 and 9MFY25 apart from increased impairment.

Industry Outlook

The major challenges currently faced by the banking sector in Nepal is centred around declining asset quality. High and rising GNPLs are leading to stressed profitability and adding downward pressure on banks' capitalization. CARs of Class A banks declined from 13.37% as on mid-July 2023 to 12.35% as on mid-April 2025 against the backdrop of deterioration in GNPL ratio from 2.98% to 5.05% over the same period. Credit expansion in Nepal took off substantially and in more aggressive manner during the pandemic era with loans & advances portfolio of Class A banks growing by a compounded annual growth rate of ~19% over FY19-FY22, leading to a higher proportion of unseasoned credit in their books. Introduction of contractionary policies helped check credit growth in FY23. The enforcement of stringent working capital guidelines, combined with a high-interest rate environment adversely affected the repayment capacity of borrowers across the credit spectrum. Also, muted GDP growth in the country (real GDP growth of 2% and 3.90% in FY23 and FY24 as compared to 4.8% and 5.60% in FY21 and FY22 respectively) and lower than expected government expenditures has prolonged the difficult road to recovery for various sectors including construction, steel, cement, automobiles, retail and SME sectors. Robust remittance inflows and revival of tourism has supported the growth in private consumption levels evident from credit growth of 8.42% during 9MFY25 compared to 4.53% during the comparative period. Capacity utilization of manufacturing units has shown a slight improvement compared to the corresponding period. This coupled with softened interest rates has benefitted repayment ability among the borrowers, however the impact of the same at root level consumers particularly retail and SME sectors is yet to be seen as indicated by rising GPNL ratio.
Net Interest Margin (NIM) of the banking sector has contracted owing to credit check amid reduced cushion in capitalization levels and rise in interest suspense accounts due to increasing share of advances overdue by more than 365 days. Additionally, deposit growth has outpaced credit growth, leading to excess liquidity being parked in lower-yielding Treasury bills and government securities. Credit costs have also trended upward, reflected in higher impairment charges and loan write-offs with a growing share of Non-Banking Assets. These factors have collectively dampened profitability and reduced distributable earnings, thereby constraining internal capital generation. To partially mitigate these pressures, the central bank has introduced several regulatory relaxations under its FY25 Monetary Policy and subsequent reviews regarding 0% countercyclical buffer applicable for FY24 and FY25, inclusion of portion of accrued interest receivable on pass loan in Tier-II capital, reduction of loan loss provisioning on pass loan and approval for issuances of perpetual non-cumulative preference shares to support capitalization levels of bank to an extent.

About the Bank

NABIL is an "A" Class Licensed Institution from Nepal Rastra Bank (NRB) incorporated on May 11, 1984. The bank commenced operations on July 12, 1984, and is headquartered at Durbarmarg, Kathmandu. It was listed on the Nepal Stock Exchange on November 24, 1985. NABIL has two subsidiaries, Nabil Investment Banking Limited and Nabil Stock Dealer Limited and one associate company, NADEP Laghubitta Bittiya Sanstha Limited as on mid- April 2025.

(Rs. in Mn)

Brief Financials	FY22 (A)	FY23 (A)	FY24 (A)	9MFY25 (UA)
Total Income	26,368	50,693	51,188	34,273
PAT	4,256	6,405	6,197	5,051

Total Assets	419,818	481,204	557,020	611,862
GNPL (%)	1.62	3.39	4.45	4.96
NNPL (%)	0.66	1.23	1.43	1.67
ROTA (%)	1.20	1.42	1.19	1.15

A: Audited; UA: Unaudited

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About CARE Ratings:
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Our parent company, CARE Ratings Limited commenced operations in April 1993 and over three decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI).